

174773

C. DUKES SCOTT  
EXECUTIVE DIRECTOR

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DAN E. ARNETT  
CHIEF OF STAFF

July 13, 2005

**VIA HAND DELIVERY**

Charles L.A. Terreni, Esquire  
Chief Clerk/Administrator  
**South Carolina Public Service Commission**  
101 Executive Center Dr., Suite 100  
Columbia, SC 29210

Re: Application of Haig Point Utility Company, Inc. for Approval of an  
Adjustment in Rates and Charges for Water and Sewer Services  
**Docket No. 2005-34-W/S**

Dear Mr. Terreni:

Enclosed for filing please find an Errata Sheet for the Direct Testimony of Dr. Douglas Carlisle. Please date stamp the extra copy enclosed and return it to me via our courier.

Also, by this letter, we are serving the same on Counsel for the Applicant and Counsel for the Intervenors. Enclosed is a Certificate of Service to this effect.

Please let me know if you have any questions.

Sincerely,

*Wendy B. Cartledge*  
Wendy B. Cartledge

WBC/sbh  
Enclosure

cc: G. Trenholm Walker, Esquire (w/enclosures)  
John F. Beach, Esquire (w/enclosures)

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION**  
**OF SOUTH CAROLINA**  
**DOCKET NO. 2005-34-W/S**

RECEIVED  
2005 JUL 13 PM 4:28  
SOUTH CAROLINA  
PUBLIC SERVICE COMMISSION

IN RE: Application of Haig Point Utility )  
Company, Inc. for Approval of an )  
Adjustment in Rates and Charges )  
For Water and Sewer Services )  
\_\_\_\_\_ )

**CERTIFICATE OF SERVICE**

This is to certify that I, Rena Grant, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the **ERRATA SHEET FOR THE DIRECT TESTIMONY OF DR. DOUGLAS CARLISLE** in the above-referenced matter to the person(s) named below:

**VIA ELECTRONIC MAIL AND U.S. MAIL**

G. Trenholm Walker, Esquire  
**Pratt-Thomas, Epting & Walker, P.A.**  
Post Office Drawer 22247  
Charleston, SC 29413

**VIA ELECTRONIC MAIL AND HAND DELIVERY**

John F. Beach, Esquire  
**Ellis Lawhorne & Sims, P.A.**  
Post Office Box 2285  
Columbia, SC 29202

  
\_\_\_\_\_  
Rena Grant

July 13, 2005  
Columbia, South Carolina

**ERRATA SHEET FOR DOUGLAS H. CARLISLE, JR.****FOR****THE OFFICE OF REGULATORY STAFF****DOCKET NO. 2005-34-WS****IN RE: HAIG POINT UTILITY COMPANY, INC.**

RECORDED  
2005 JUL 13 PM 4:28  
SO H.P.U. CO.  
COLUMBIA, SC

The following changes are made to my Direct Testimony and Exhibits:

**Direct Testimony**

Page 3, line 20 "STRUCTURE DID YOU ADOPT FOR YOU ANALYSIS?"  
should read "STRUCTURE DID YOU ADOPT FOR YOUR ANALYSIS?"

Page 4, line 11: "\$7,345" should be changed to "\$23,769"

Page 9, line 7, "inflation-index" should read "inflation-indexed"

Page 10, line 12, "I took my" should read "I took the"

**Exhibits**

Exhibit DHC-1 should be replaced by the revised version, DHC-1 REVISED,  
attached.

Exhibit DHC-3 should be replaced by the revised version, DHC-3 REVISED,  
attached.

Exhibit DHC-8: pages 2 & 3 of 3 should be removed and the attached pages  
inserted.

## HAIG POINT UTILITY COMPANY (HPUC): CAPITAL

DESCRIPTION	RATE BASE	RATIO	EMBEDDED COST	WEIGHTED COST %	WEIGHTED COST
Debt	\$1,231,555	50%	7.50%	3.75%	\$92,367
Equity	\$1,231,555	50%	9.65%	4.83%	\$118,845
	\$2,463,109			8.58%	

## HAIG POINT UTILITY COMPANY (HPUC): CAPITAL USING INTERNATIONAL PAPER'S CAPITAL STRUCTURE

DESCRIPTION	RATE BASE	RATIO	EMBEDDED COST	WEIGHTED COST %	WEIGHTED COST
Debt	\$1,231,555	60%	7.50%	4.50%	\$110,840
Equity	\$1,231,555	40%	9.65%	3.86%	\$95,076
	\$2,463,109				
Equity under 50-50 structure					\$118,845
Equity under 60-40 structure					\$95,076
<b>Difference</b>					<b>\$23,769</b>

**HAIG POINT UTILITY COMPANY (HPUC): CAPITAL  
CHANGE IN RATE BASE NECESSARY TO MEET HPUC ROE TARGET**

DESCRIPTION	RATE BASE	RATIO	EMBEDDED COST	WEIGHTED COST %	WEIGHTED COST
Debt	\$1,467,482	50%	7.50%	3.75%	\$110,061
Equity	\$1,467,482	50%	9.65%	4.83%	\$141,612
	\$2,934,964				
HPUC target revenue from equity					
Additional equity revenue requirement to meet HPUC target					
					\$141,612
					\$471,855

**HAIG POINT UTILITY COMPANY (HPUC): CAPITAL  
CHANGE IN ROE NECESSARY TO MEET HPUC EQUITY RETURN TARGET**

DESCRIPTION	RATE BASE	RATIO	EMBEDDED COST	WEIGHTED COST %	WEIGHTED COST
Debt	\$1,231,555	50%	7.50%	3.75%	\$92,367
Equity	\$1,231,555	50%	11.50%	5.75%	\$141,612
	\$2,463,109				

# PROXY GROUP OF WATER COMPANIES

WATER COMPANY	RELATIVE SIZE	SALES (\$millions) [1]	CAPITALIZATION (\$millions) [1]	COMMON STOCK RATIO TO CAPITAL [2]	D.C.F. RETURN ON EQUITY [3]	TEN-YEAR AVERAGE TRAILING TOTAL RETURNS [1]
AMERICAN STATES	LARGE	231	482	52.3%	10.02%	13.5%
AQUA AMERICA	LARGE	456	2,888	50.0%	7.56%	23.2%
CALIFORNIA WATER	LARGE	316	679	50.8%	8.05%	13.4%
ARTESIAN	MEDIUM	40	123	40.0%	11.40%	18.2%
CONNECTICUT WATER SERVICE	MEDIUM	49	198	56.0%	6.40%	13.4%
MIDDLESEX WATER	MEDIUM	72	216	44.0%	9.40%	14.4%
SJW	MEDIUM	169	425	56.0%	10.80%	18.2%
SOUTHWEST	MEDIUM	195	238	52.0%	9.50%	20.6%
YORK	MEDIUM	23	152	57.0%	8.60%	13.6%
BIW	SMALL	10	31	57.1%		17.5%
PENNICHUCK	SMALL	23	64	46.0%		19.9%
AVERAGE				51.0%	9.1%	16.9%

[1] Source for Sales, Capitalization & Total Returns: Morningstar, as of 5/31/05  
 [2] Sources for Common Stock to Capital: Value Line and Securities & Exchange Commission, Form 10-K  
 [3] Source for D.C.F. R.O.E.: Exhibits DHC-5, 6, 7&8

Source for Sales, Capitalization & Total Returns: Morningstar, TTM, as of 5/31/05

CALIFORNIA WATER NYSE-CWT										RECENT PRICE	33.30	P/E RATIO	21.5 (Trailing: 22.8 Median: 17.0)	RELATIVE P/E RATIO	1.20	DIVID YLD	3.4%	VALUE LINE							
TIMELINESS 4 Lowered 2/4/05										High: 20.5 17.6 21.9 29.6 33.8 32.0 31.4 28.6 26.9 31.4 37.9 37.8 31.2										Target Price Range			2008	2009	2010
SAFETY 2 Lowered 8/11/95										Low: 14.7 14.8 16.3 18.6 20.8 22.6 21.5 22.9 20.5 23.7 26.1 31.2													64	48	40
TECHNICAL 2 Raised 4/29/05										LEGENDS													32	24	20
BETA .75 (1.00 = Market)										1.33 x Dividends p sh divided by Interest Rate													16	12	8
2008-10 PROJECTIONS										..... Relative Price Strength													6		
Price Gain Ann'l Total										2-for-1 split 1/98															
High 40 (+20%) 8%										Options: No															
Low 30 (-10%) 2%										Shaded area indicates recession															
Insider Decisions																									
Institutional Decisions																									
																							</		

AQUA AMERICA NYSE-WTR				RECENT PRICE	25.90	P/E RATIO	27.8	(Trailing: 30.1 Median: 21.0)	RELATIVE P/E RATIO	1.55	DIVID YLD	2.0%	VALUE LINE						
TIMELINESS	4	Lowered 6/4/04	High: 5.0	5.5	7.6	11.4	15.4	15.4	16.0	19.7	20.0	22.4	24.6	27.0	Target Price Range	2008	2009	2010	
SAFETY	3	Lowered 8/1/03	Low: 4.4	4.4	5.2	5.9	9.7	10.1	8.4	12.5	12.8	15.8	18.9	23.3					
TECHNICAL	3	Lowered 3/4/05	LEGENDS 1.50 x Dividends p sh divided by Interest Rate Relative Price Strength 3-for-2 split 7/96 4-for-3 split 1/96 5-for-4 split 12/00 5-for-4 split 12/01 5-for-4 split 12/03 Options: Yes Shaded area indicates recession																
BETA .75 (1.00 = Market)			2008-10 PROJECTIONS Price 35 Gain (+35%) Ann'l Total Return 9% High 25 Low 25 Options: Yes Shaded area indicates recession																
Insider Decisions			Institutional Decisions 20284 30284 40284 to Buy 90 90 103 to Sell 62 45 49 Net (Buy/Sell) 26345 26282 27052																
J J A S O N D J F			Percent shares traded 4.5 1.5																
to Buy 1 0 0 0 0 0 0 0 0 0 0 0																			
to Sell 0 0 0 0 0 1 0 0 0 0 0 1																			
Net (Buy/Sell) 1 0 1 0 0 0 0 0 0 0 0 2																			
1989 1990 1991 1992 1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006			© VALUE LINE PUB. INC. 08-10																
4.53	2.70	2.85	2.43	2.27	2.42	2.45	2.48	2.69	2.79	3.21	3.29	3.59	3.79	3.97	4.63	5.00	5.30	Revenues per sh	6.50
.65	.58	.59	.52	.56	.56	.63	.67	.74	.81	.96	1.01	1.15	1.26	1.28	1.46	1.55	1.65	"Cash Flow" per sh	1.90
.27	.33	.33	.31	.33	.35	.39	.40	.46	.53	.56	.62	.68	.72	.76	.85	.95	1.05	Earnings per sh	1.25
.24	.26	.26	.27	.27	.28	.29	.30	.32	.34	.36	.38	.40	.43	.46	.49	.52	.56	Div'd Decl'd per sh	.68
1.15	1.01	.72	.80	.63	.61	.69	.64	.77	1.09	1.20	1.55	1.45	1.60	1.76	2.05	1.85	1.80	Cap'l Spending per sh	1.85
2.92	2.80	2.76	2.79	3.05	3.21	3.28	3.59	3.79	4.28	4.57	5.13	5.53	5.81	7.12	7.85	8.05	8.45	Book Value per sh	9.70
29.45	30.48	31.06	38.40	44.55	44.83	47.81	49.31	50.60	54.15	60.10	63.87	65.48	84.90	92.59	95.38	98.00	98.00	Common Shs Outst'g	100.00
12.9	10.2	10.8	12.5	14.4	13.5	12.0	15.6	17.8	22.5	21.2	18.2	23.6	23.6	24.5	25.1	25.1	25.1	Avg Ann'l P/E Ratio	23.0
.98	.76	.69	.76	.85	.89	.80	.98	1.03	1.17	1.21	1.18	1.21	1.29	1.40	1.34	1.34	1.34	Relative P/E Ratio	1.55
6.9%	7.7%	7.2%	6.8%	5.9%	6.0%	6.2%	4.9%	3.9%	2.9%	3.0%	3.3%	2.5%	2.5%	2.5%	2.3%	2.3%	2.3%	Avg Ann'l Div'd Yield	2.4%
CAPITAL STRUCTURE as of 12/31/04			117.0 122.5 136.2 151.0 257.3 275.5 307.3 322.0 367.2 442.0 490 525																
Total Debt \$884.2 mill. Due in 5 Yrs \$221.6 mill.			19.0 19.8 23.2 28.8 45.0 50.7 58.5 62.7 67.3 80.0 95.0 105.0																
LT Debt \$748.9 mill. LT Interest \$40.0 mill.			40.4% 41.4% 40.6% 40.5% 38.4% 38.9% 39.3% 38.5% 39.3% 39.4% 40.0% 40.0%																
(Total interest coverage: 3.7x)			1.6% -- -- -- -- -- -- -- -- -- -- -- --																
Pension Assets-12/04 \$115.3 mill.			51.9% 54.1% 54.4% 52.7% 52.9% 52.0% 52.2% 54.2% 51.4% 50.0% 48.0% 46.0%																
Oblig. \$171.1 mill.			46.4% 44.0% 44.8% 46.8% 46.7% 47.8% 47.7% 45.8% 48.6% 50.0% 52.0% 54.0%																
Pfd Stock None			338.0 401.7 427.2 496.6 782.7 901.1 990.4 1076.2 1355.7 1497.3 1525 1550																
Common Stock 95,475,161 shares as of 2/18/05			436.9 502.9 534.5 609.8 1135.4 1251.4 1368.1 1490.8 1824.3 2069.8 2125 2175																
MARKET CAP: \$2.5 billion (Mid Cap)			7.7% 6.8% 7.4% 7.6% 7.6% 7.4% 7.6% 7.6% 6.4% 6.7% 7.5% 8.0%																
CURRENT POSITION 2002 2003 12/31/04 (\$MILL)			11.7% 10.7% 11.9% 12.3% 12.2% 11.7% 12.3% 12.7% 10.2% 10.7% 12.0% 12.5%																
Cash Assets 49.7 39.2 13.1			11.7% 11.2% 12.0% 12.4% 12.3% 11.7% 12.4% 12.7% 10.2% 10.7% 12.0% 12.5%																
Receivables 57.7 62.3 64.5			3.5% 2.8% 3.6% 4.5% 4.3% 4.7% 5.1% 5.2%																
Inventory (AvgCst) 4.6 5.8 6.9			71% 75% 70% 64% 65% 60% 59% 59%																
Other 2.7 5.1 5.6			59% 59% 59% 57% 55% 53%																
Current Assets 114.7 112.4 90.1			59% 57% 55% 53%																
Accts Payable 31.1 32.3 23.5			59% 57% 55% 53%																
Debt Due 149.4 135.8 135.3			59% 57% 55% 53%																
Other 46.0 63.9 58.6			59% 57% 55% 53%																
Current Liab. 226.5 232.0 217.4			59% 57% 55% 53%																
Fix. Chg. Cov. 347% 344% 364%			59% 57% 55% 53%																
ANNUAL RATES of change (per sh)			59% 57% 55% 53%																
Revenues 5.5% 7.5% 8.0%			59% 57% 55% 53%																
"Cash Flow" 9.5% 9.5% 7.0%			59% 57% 55% 53%																
Earnings 9.0% 8.5% 9.0%			59% 57% 55% 53%																
Dividends 5.5% 6.5% 7.0%			59% 57% 55% 53%																
Book Value 8.5% 10.5% 6.0%			59% 57% 55% 53%																
QUARTERLY REVENUES (\$ mill.)			59% 57% 55% 53%																
Cal-ender Mar.31 Jun.30 Sep.30 Dec.31 Full Year			59% 57% 55% 53%																
2002 71.7 76.6 91.9 81.8 322.0			59% 57% 55% 53%																
2003 80.5 83.4 102.1 101.2 367.2			59% 57% 55% 53%																
2004 99.8 106.5 120.3 115.4 442.0			59% 57% 55% 53%																
2005 110 120 130 130 490			59% 57% 55% 53%																
2006 120 130 140 135 525			59% 57% 55% 53%																
EARNINGS PER SHARE A & D			59% 57% 55% 53%																
Cal-ender Mar.31 Jun.30 Sep.30 Dec.31 Full Year			59% 57% 55% 53%																
2002 .14 .16 .25 .17 .72			59% 57% 55% 53%																
2003 .15 .18 .24 .19 .76			59% 57% 55% 53%																
2004 .17 .19 .26 .24 .85			59% 57% 55% 53%																
2005 .19 .23 .27 .26 .95			59% 57% 55% 53%																
2006 .21 .25 .30 .29 1.05			59% 57% 55% 53%																
QUARTERLY DIVIDENDS PAID B =			59% 57% 55% 53%																
Cal-ender Mar.31 Jun.30 Sep.30 Dec.31 Full Year			59% 57% 55% 53%																
2001 .099 .099 .099 .106 .40			59% 57% 55% 53%																
2002 .106 .106 .106 .112 .43			59% 57% 55% 53%																
2003 .112 .112 .112 .112 .46			59% 57% 55% 53%																
2004 .12 .12 .12 .13 .49			59% 57% 55% 53%																
2005 .13			59% 57% 55% 53%																
2006 .13			59% 57% 55% 53%																
BUSINESS: Aqua America, Inc. is the holding company for water and wastewater utilities that serve approximately 2.5 million residents in Pennsylvania, Ohio, New Jersey, Illinois, Maine, North Carolina, Texas, Florida, Kentucky, and five other states. Divested three of four non-water businesses in '91; telemarketing group in '93; and others. Acquired Consumers Water, 4/99; AquaSource, 7/03; and others. Water supply revenues '04: residential, 60%; commercial, 15%; industrial & other, 25%. Officers and directors own 1.5% of the common stock (4/05 Proxy). Chairman & Chief Executive Officer: Nicholas DeBenedictis. Incorporated: Pennsylvania. Address: 762 West Lancaster Avenue, Bryn Mawr, Pennsylvania 19010. Telephone: 610-525-1400. Internet: www.aquaamerica.com.			We look for Aqua America to realize an earnings gain of about 12% in the current year, following similar increases in 2004. Continued growth will likely stem from further acquisitions and some rate increases. The company could also benefit from a long hot summer, as reservoirs in the Northeast are at or near capacity thanks to a wet winter, which will enable the utility to meet customer demand from its own facilities. Management has been fairly successful in securing rate increases. A pending North Carolina case will yield a \$3.2 million increase if granted in full. We believe a realistic decision will be reached, based on previous outcomes in that state. Utility commissions are more apt to award increases due to rising capital costs rather than operating expenses. Its ability to lower the ratio of expenses to revenues impresses the commission. The company is further expanding through acquisitions. WTR completed eight purchases in the first quarter of 2005. We expect a similar rate of expansion throughout the year. Most of these operations are located in Pennsylvania and New Jersey, areas in which the company already has a strong presence. It is likely to file for additional rate hikes, reflecting the cost of hose acquisitions. Also, three of these purchases represent Aqua's first venture into the specialized area of wastewater treatment. It will enable the company to provide internal sludge hauling and collection system maintenance for its own treatment facilities in south-eastern Pennsylvania. If this allows tighter cost control, it may be applied to other geographic regions as opportunity allows, perhaps providing a new source of earnings. This stock's Price/Earnings ratio is somewhat above its 15-year median. Consequently, despite decent earnings growth prospects, this equity's appreciation potential to 2008-2010 is unattractive. But acquisitions of additional small water utilities will likely continue. The company has typically been able to increase returns on those operations, due to its larger size and lower capital costs. Accordingly, our projections might well prove conservative. Marc Denton April 29, 2006																

(A) Primary shares outstanding through '96; diluted thereafter. Excl. nonrec. gains (losses): '90, (38¢); '91, (34¢); '92, (38¢); '99, (11¢); '00, 2¢; '01, 2¢; '02, 5¢; '03, 4¢. Excl. gain from disc. operations: '96, 2¢. Next earnings report due early May. (B) Dividends historically paid in early March, June, Sept. & Dec. = Div'd. reinvestment plan available (5% discount). (C) In millions, adjusted for stock splits. (D) May not sum due to rounding.

Company's Financial Strength B+  
 Stock's Price Stability 85  
 Price Growth Persistence 95  
 Earnings Predictability 100

To subscribe call 1-800-833-0046.